

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Charter School of the Dunes, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Charter School of the Dunes, Inc. and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charter School of the Dunes, Inc. and Affiliate as of June 30, 2020 and 2019 and the consolidated activities and change in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and is not a required part of the consolidated financial statements. Additionally, the accompanying consolidating schedules of financial position and activities and change in net assets on pages 15 through 18 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and consolidating schedules of financial position and activities and change in net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2021 on our consideration of Charter School of the Dunes, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter School of the Dunes, Inc.'s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
February 18, 2021

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,853,890	\$ 1,689,939
Cash - lender restricted	-	83,614
Grants receivable	192,732	135,426
Interest income receivable	-	53,885
<i>Total current assets</i>	<u>3,046,622</u>	<u>1,962,864</u>
PROPERTY AND EQUIPMENT		
Land	750,641	485,842
Buildings and improvements	11,306,585	11,342,504
Furniture and equipment	604,084	472,695
Textbooks	299,465	309,007
Less: accumulated depreciation	<u>(2,661,297)</u>	<u>(2,245,486)</u>
<i>Property and equipment, net</i>	<u>10,299,478</u>	<u>10,364,562</u>
OTHER ASSETS		
Note receivable	-	9,237,456
TOTAL ASSETS	<u>\$ 13,346,100</u>	<u>\$ 21,564,882</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 377,000	\$ 614,000
Paycheck Protection Program note payable	760,200	-
Accounts payable and accrued expenses	<u>264,585</u>	<u>470,198</u>
<i>Total current liabilities</i>	<u>1,401,785</u>	<u>1,084,198</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,682,500	17,864,413
Less: unamortized debt issuance costs	<u>(549,717)</u>	<u>(602,071)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,132,783</u>	<u>17,262,342</u>
<i>Total liabilities</i>	<u>5,534,568</u>	<u>18,346,540</u>
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>7,811,532</u>	<u>3,218,342</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,346,100</u>	<u>\$ 21,564,882</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 5,191,219	\$ 4,839,304
Grant revenue	2,041,941	1,828,723
Student fees	19,851	30,031
Interest income	57,065	94,838
Contributions	3,317	2,844
Fundraising income	1,996	5,219
Other income	48,055	47,671
<i>Total revenue and support</i>	<u>7,363,444</u>	<u>6,848,630</u>
EXPENSES		
Program services	5,195,475	5,065,909
Management and general	1,142,323	1,132,573
<i>Total expenses</i>	<u>6,337,798</u>	<u>6,198,482</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,025,646	650,148
FORGIVENESS OF DEBT	<u>3,567,544</u>	<u>-</u>
CHANGE IN NET ASSETS	4,593,190	650,148
NET ASSETS, BEGINNING OF YEAR	<u>3,218,342</u>	<u>2,568,194</u>
NET ASSETS, END OF YEAR	<u>\$ 7,811,532</u>	<u>\$ 3,218,342</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	\$ 2,662,924	\$ 556,508	\$ 3,219,432	\$ 2,397,661	\$ 523,579	\$ 2,921,240
Employee benefits	627,373	130,016	757,389	607,048	100,773	707,821
Other professional services	317,515	124,539	442,054	273,552	90,294	363,846
Depreciation	497,876	-	497,876	478,814	-	478,814
Food service	279,732	-	279,732	333,394	-	333,394
Transportation service	263,312	-	263,312	297,704	-	297,704
Authorizer oversight fees	-	176,675	176,675	-	81,444	81,444
Interest	173,547	-	173,547	193,210	-	193,210
Occupancy	244,085	-	244,085	240,374	-	240,374
Loss on disposal of assets	0	-	-	25,033	-	25,033
Classroom, kitchen, and office supplies	108,533	33,858	142,391	142,739	18,640	161,379
Insurance	-	56,529	56,529	-	54,675	54,675
Staff development and recruitment	19,132	3,255	22,387	71,001	10,237	81,238
Asset management fees	-	20,673	20,673	-	81,871	81,871
Contribution	-	-	-	-	130,000	130,000
Other	1,446	40,270	41,716	5,379	41,060	46,439
<i>Total functional expenses</i>	<u>\$ 5,195,475</u>	<u>\$ 1,142,323</u>	<u>\$ 6,337,798</u>	<u>\$ 5,065,909</u>	<u>\$ 1,132,573</u>	<u>\$ 6,198,482</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 4,593,190	\$ 650,148
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	497,876	478,814
Amortization of debt issuance costs	52,354	22,146
Loss on disposal of assets	-	25,033
Forgiveness of debt	(3,567,544)	-
Changes in certain assets and liabilities:		
Grants receivable	(57,306)	(84,478)
Interest income receivable	53,885	-
Accounts payable and accrued expenses	(205,613)	103,261
<i>Net cash provided by operating activities</i>	<u>1,366,842</u>	<u>1,194,924</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(432,792)</u>	<u>(341,979)</u>
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program note payable	760,200	-
Principal repayment of notes payable	(613,913)	(616,000)
<i>Net cash provided by (used in) financing activities</i>	<u>146,287</u>	<u>(616,000)</u>
NET CHANGE IN CASH	1,080,337	236,945
CASH, BEGINNING OF YEAR	<u>1,773,553</u>	<u>1,536,608</u>
CASH, END OF YEAR	<u>\$ 2,853,890</u>	<u>\$ 1,773,553</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 2,853,890	\$ 1,689,939
Cash - lender restricted	-	83,614
<i>Total cash, end of year</i>	<u>\$ 2,853,890</u>	<u>\$ 1,773,553</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 189,700	\$ 171,064

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Charter School of the Dunes, Inc. is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana operating a public charter school established under Indiana Code 20-24 which served approximately 650 students in kindergarten through eighth grade during the 2019-2020 school year (600 students during the 2018-2019 school year). Charter School of the Dunes, Inc. maintains control over CSOTD Holdings, Inc., a public benefit not-for-profit organization established for the purpose of constructing and owning a building to serve as an educational facility.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., collectively referred to as the “School.” All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting and Use of Estimates – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions - which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions - which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A significant portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The School has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2020 and 2019.

Grants Receivable – Grants receivable relate to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Debt Issuance Costs – The School incurred costs totaling \$725,304 associated with securing financing for the construction of the school facility. Amortization of these debt issuance costs is provided on a straight-line basis over the term of the agreements. Accumulated amortization as of June 30, 2020 and 2019 was \$175,587 and \$123,233, respectively. Amortization expense for the years ended June 30, 2020 and 2019 was \$52,354 and \$22,146, respectively, and is included in interest expense. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability on the statements of financial position.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Buildings and improvements	35 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Taxes on Income – Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., have received determinations from the U.S. Treasury Department stating that they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code as tax-exempt organizations; however, each entity would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2020 and 2019 no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending after 2016 are open to audit for both federal and state purposes.

Functional Expense Reporting – The costs of providing educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

Subsequent Events – The School evaluated subsequent events through February 18, 2021, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

NOTE 2 - RESTRICTED CASH

Restricted cash represents loan proceeds received by CSOTD Holdings, Inc. that are restricted by the lender for payment of financing related costs. Restricted cash totaled \$83,614 at June 30, 2019. There was no restricted cash at June 30, 2020.

NOTE 3 - PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act which includes the Paycheck Protection Program ("PPP") administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 9, 2020, the School was granted a note payable from BMO Harris Bank in the amount of \$760,200 pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 9, 2022 and bears interest at a rate of 1.00%. To the extent the funds are used for qualifying expenses under the program during the 24-week period beginning on the date of the loan funding, the School may apply for loan forgiveness. The School has determined the PPP note payable represents a financial liability and has accounted for it in accordance with FASB ASC 470, *Simplifying the Classification of Debt*, until forgiveness is obtained. Management believes the funds will be used for qualified expenses and will be fully forgiven. Accordingly, the note payable is included as a current liability on the statement of financial position as of June 30, 2020.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE AND PAYABLE

To facilitate the construction of its school facilities, during 2011, the School borrowed funds from BMO Harris Bank, which when combined with its own resources were loaned to Chase NMTC CSOTD Investment Fund, LLC ("Chase NMTC"). Chase NMTC was able to secure an additional equity investment in order to complete the funding required for the project. Chase NMTC, in turn, loaned the amount necessary for construction of the facility to CSOTD Holdings, Inc. through an affiliated entity, NNMF SUB-CDE XVII, LLC ("SUB-CDE").

During December 2019 on the eighth anniversary of the financing, as part of a put/call agreement, Chase NMTC and SUB-CDE were removed from the financing structure. The note receivable on Charter School of the Dunes, Inc.'s books was assigned by Chase NMTC to CSOTD Holdings, Inc. and the corresponding note payable on CSOTD Holdings, Inc.'s books was assigned by SUB-CDE to Charter School of the Dunes, Inc. Therefore, as of December 2019, the \$9,237,456 note receivable and payable get eliminated in consolidation.

In addition, as part of the original financing agreement, the note payable from CSOTD Holdings, Inc. to SUB-CDE in the amount of \$3,567,544 was canceled. This was possible due the tax credits received by SUB-CDE as part of the financing structure.

The note receivable was due from Chase NMTC, an entity created to facilitate the funding and construction of the School's facility. The note carried an interest rate of 1% per annum and was secured by all assets of Chase NMTC, consisting primarily of its interest in SUB-CDE. Interest only was payable on the note until December 1, 2019.

Notes payable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to BMO Harris Bank	\$ 4,767,000	\$ 5,335,913
Note payable to NNMF SUB-CDE XVII, LLC	-	9,237,456
Note payable to NNMF SUB-CDE XVII, LLC	-	3,567,544
Note payable to the Indiana Common School Fund	292,500	337,500
	<u>5,059,500</u>	<u>18,478,413</u>
Less: current portion	<u>(377,000)</u>	<u>(614,000)</u>
Long-term portion	<u>\$ 4,682,500</u>	<u>\$ 17,864,413</u>

The note payable to BMO Harris Bank provides for interest at 5.39%, of which interest at 4.91% is subsidized by the U.S. Treasury from the purchase of Qualified School Construction Bonds; however, the subsidy is subject to reduction dependent upon federal sequestration adjustments. The note payable amortizes through December 2030. The loan is secured by a blanket lien on all school assets. The loan agreement contains certain covenants that limit the School's ability to create liens, incur debt, and change management. The loan agreement also contains covenants requiring a minimum debt service coverage ratio (1.20/1) and minimum levels of student enrollment. The School met all debt covenants as of and for the year ended June 30, 2020.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE AND PAYABLE, Continued

The notes payable to SUB-CDE relate to borrowings by CSOTD Holdings, Inc. to finance the construction of the school facility. The loans each provided for interest only at .9% per annum to be paid until December 1, 2019. The loans are secured by all School assets.

The note payable to Indiana Common School Fund requires semi-annual payments of \$22,500 plus interest through July 2026. Interest accrues at 1% per annum.

Annual principal maturities of the notes payable are as follows for the years ending June 30:

2021	\$ 377,000
2022	377,000
2023	377,000
2024	377,000
2025	377,000
Thereafter	<u>3,174,500</u>
	\$ <u>5,059,500</u>

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Calumet College of Saint Joseph. As the sponsoring organization, Calumet College of Saint Joseph exercises certain oversight responsibilities. Under the charter, the School agreed to pay the sponsor an annual administrative fee not to exceed 3% of state tuition support. Payments under this agreement were \$176,675 and \$81,444 for the years ended June 30, 2020 and 2019, respectively.

As part of the financing of the school facilities, the School agreed to pay SUB-CDE an asset management fee in the amount of \$78,571 per year for as long as the construction project loans remained outstanding. In addition, the School was responsible for certain tax and accounting fees incurred by SUB-CDE. The management fee ended in December 2019 with the exit of SUB-CDE from the financing structure. Expense for the years ended June 30, 2020 and 2019 relating to these fees was \$20,673 and \$81,871, respectively.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 6 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2019 (the latest year reported), both TRF and PERF were approximately 80% and 100% funded, respectively.

Retirement plan expense was \$290,998 and \$250,906 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides education services to families residing in Lake and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2020 and 2019, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at BMO Harris Bank and are insured up to the FDIC insurance limit. As of June 30, 2020 and 2019, cash balances exceeded FDIC insurance limits.

NOTE 8 - LIQUIDITY

Financial assets held by the School include unrestricted cash, grants receivable, and interest income receivable. Financial assets available to meet cash needs for general expenditures within one year totaled \$3,046,622 and \$1,879,250 as of June 30, 2020 and 2019, respectively.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor Agency/Pass-Through Entity/Cluster Title/Program Title/ Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 86,269
COVID-19 School Breakfast Program	10.553		7,020
National School Lunch Program	10.555		235,604
COVID-19 National School Lunch Program	10.555		13,436
Commodities – Noncash Assistance	10.555		19,814
Fresh Fruits and Vegetables Program	10.582		<u>14,461</u>
<i>Total U.S. Department of Agriculture</i>			<u>376,604</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	18611-001-PN01	781,105
Title I, School Improvement Grants	84.377A		7,002
Special Education Cluster			
Special Education - Grants to States	84.027	20611-564-PN01	108,909
Title II, Supporting Effective Instruction State Grants	84.367	S367A190013	52,248
Title IV, Student Support and Academic Enrichment Grants	84.424A	2019-424-312	<u>52,600</u>
<i>Total U.S. Department of Education</i>			<u>1,001,864</u>
<i>Total federal awards expended</i>			<u>\$ 1,378,468</u>

See independent auditors' report and accompanying notes to this schedule

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Charter School of the Dunes, Inc. (the "School") under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2020

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
ASSETS				
CURRENT ASSETS				
Cash	\$ 2,853,890	\$ -	\$ -	\$ 2,853,890
Grants receivable	192,732	-	-	192,732
<i>Total current assets</i>	<u>3,046,622</u>	<u>-</u>	<u>-</u>	<u>3,046,622</u>
PROPERTY AND EQUIPMENT				
Land	264,799	485,842	-	750,641
Building and improvements	211,155	11,095,430	-	11,306,585
Furniture and equipment	604,084	-	-	604,084
Textbooks	299,465	-	-	299,465
Less: accumulated depreciation	<u>(495,048)</u>	<u>(2,166,249)</u>	<u>-</u>	<u>(2,661,297)</u>
<i>Property and equipment, net</i>	<u>884,455</u>	<u>9,415,023</u>	<u>-</u>	<u>10,299,478</u>
OTHER ASSETS				
Note receivable	9,237,456	-	(9,237,456)	-
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 377,000	\$ -	\$ -	\$ 377,000
Paycheck Protection Program note payable	760,200	-	-	760,200
Accounts payable and accrued expenses	264,585	-	-	264,585
<i>Total current liabilities</i>	<u>1,401,785</u>	<u>-</u>	<u>-</u>	<u>1,401,785</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	4,682,500	9,237,456	(9,237,456)	4,682,500
Less: unamortized debt issuance costs	<u>(88,666)</u>	<u>(461,051)</u>	<u>-</u>	<u>(549,717)</u>
<i>Total long-term liabilities,</i> <i>net of unamortized debt issuance costs</i>	<u>4,593,834</u>	<u>8,776,405</u>	<u>(9,237,456)</u>	<u>4,132,783</u>
<i>Total liabilities</i>	5,995,619	8,776,405	(9,237,456)	5,534,568
NET ASSETS	<u>7,172,914</u>	<u>638,618</u>	<u>-</u>	<u>7,811,532</u>
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2019

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,689,939	\$ -	\$ -	\$ 1,689,939
Cash - lender restricted	-	83,614	-	83,614
Grants receivable	135,426	-	-	135,426
Due from affiliate	-	96,919	(96,919)	-
Interest income receivable	53,885	-	-	53,885
<i>Total current assets</i>	<u>1,879,250</u>	<u>180,533</u>	<u>(96,919)</u>	<u>1,962,864</u>
PROPERTY AND EQUIPMENT				
Land	-	485,842	-	485,842
Building and improvements	247,074	11,095,430	-	11,342,504
Furniture and equipment	472,695	-	-	472,695
Textbooks	309,007	-	-	309,007
Less: accumulated depreciation	(396,249)	(1,849,237)	-	(2,245,486)
<i>Property and equipment, net</i>	<u>632,527</u>	<u>9,732,035</u>	<u>-</u>	<u>10,364,562</u>
OTHER ASSETS				
Note receivable	9,237,456	-	-	9,237,456
	<u>\$ 11,749,233</u>	<u>\$ 9,912,568</u>	<u>\$ (96,919)</u>	<u>\$ 21,564,882</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 614,000	\$ -	\$ -	\$ 614,000
Accounts payable and accrued expenses	387,218	82,980	-	470,198
Due to affiliate	96,919	-	(96,919)	-
<i>Total current liabilities</i>	<u>1,098,137</u>	<u>82,980</u>	<u>(96,919)</u>	<u>1,084,198</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	5,059,413	12,805,000	-	17,864,413
Less: unamortized debt issuance costs	(97,110)	(504,961)	-	(602,071)
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,962,303</u>	<u>12,300,039</u>	<u>-</u>	<u>17,262,342</u>
<i>Total liabilities</i>	<u>6,060,440</u>	<u>12,383,019</u>	<u>(96,919)</u>	<u>18,346,540</u>
NET ASSETS (DEFICIENCY)	<u>5,688,793</u>	<u>(2,470,451)</u>	<u>-</u>	<u>3,218,342</u>
	<u>\$ 11,749,233</u>	<u>\$ 9,912,568</u>	<u>\$ (96,919)</u>	<u>\$ 21,564,882</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2020

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
REVENUE AND SUPPORT				
State education support	\$ 5,191,219	\$ -	\$ -	\$ 5,191,219
Grant revenue	2,041,941	-	-	2,041,941
Student fees	19,851	-	-	19,851
Interest income	57,039	26	-	57,065
Contributions	3,317	-	-	3,317
Fundraising income	1,996	-	-	1,996
Other	48,055	-	-	48,055
<i>Total revenue and support</i>	<u>7,363,418</u>	<u>26</u>	<u>-</u>	<u>7,363,444</u>
EXPENSES				
Program services	4,760,935	434,540	-	5,195,475
Management and general	1,118,362	23,961	-	1,142,323
<i>Total expenses</i>	<u>5,879,297</u>	<u>458,501</u>	<u>-</u>	<u>6,337,798</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,484,121	(458,475)	-	1,025,646
FORGIVENESS OF DEBT	-	3,567,544	-	3,567,544
CHANGE IN NET ASSETS	1,484,121	3,109,069	-	4,593,190
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	5,688,793	(2,470,451)	-	3,218,342
NET ASSETS, END YEAR	<u>\$ 7,172,914</u>	<u>\$ 638,618</u>	<u>\$ -</u>	<u>\$ 7,811,532</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2019

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
REVENUE AND SUPPORT				
State education support	\$ 4,839,304	\$ -	\$ -	\$ 4,839,304
Grant revenue	1,828,723	-	-	1,828,723
Student fees	30,031	-	-	30,031
Interest income	94,131	707	-	94,838
Contributions	2,844	-	-	2,844
Fundraising income	5,219	-	-	5,219
Rental income	-	125,000	(125,000)	-
Other	47,671	-	-	47,671
<i>Total revenue and support</i>	<u>6,847,923</u>	<u>125,707</u>	<u>(125,000)</u>	<u>6,848,630</u>
EXPENSES				
Program services	4,733,487	457,422	(125,000)	5,065,909
Management and general	1,048,709	83,864	-	1,132,573
<i>Total expenses</i>	<u>5,782,196</u>	<u>541,286</u>	<u>(125,000)</u>	<u>6,198,482</u>
CHANGE IN NET ASSETS	1,065,727	(415,579)	-	650,148
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>4,623,066</u>	<u>(2,054,872)</u>	<u>-</u>	<u>2,568,194</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ 5,688,793</u>	<u>\$ (2,470,451)</u>	<u>\$ -</u>	<u>\$ 3,218,342</u>

See independent auditors' report



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER CONSOLIDATED FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Charter School of the Dunes, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Charter School of the Dunes, Inc. (the "School") and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 18, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN



Indianapolis, Indiana
February 18, 2021

The Hammond Urban Academy, Inc.

Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Hammond Urban Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Hammond Urban Academy, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hammond Urban Academy, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Indianapolis, Indiana
November 8, 2021

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The Hammond Urban Academy, Inc.

**Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash	\$ 1,884,306	\$ 1,073,981
Grants receivable	8,024	29,364
Prepaid expenses	60,352	51,295
Total current assets	1,952,682	1,154,640
Property and equipment:		
Land	5,671,123	5,671,123
Building and improvements	13,367,868	13,354,515
Furniture and equipment	3,218,622	2,808,951
Textbooks	144,890	144,890
	22,402,503	21,979,479
Accumulated depreciation	7,220,673	6,516,430
	15,181,830	15,463,049
Cash restricted for debt service	960,038	946,431
	\$ 18,094,550	\$ 17,564,120
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 128,641	\$ 105,108
Accrued salaries and related benefits	279,679	274,402
Accrued interest	206,617	17,981
Current portion of obligations under capital lease	118,424	100,739
Current portion of long-term debt, net	527,698	432,698
Current portion of Paycheck Protection Program forgivable loan	194,446	-
Deferred revenue	63,759	50,473
Total current liabilities	1,519,264	981,401
Long-term liabilities:		
Obligations under capital lease	376,183	197,059
Paycheck Protection Program forgivable loan	305,554	-
Long-term debt, net	9,990,753	10,502,426
Total long-term liabilities	10,672,490	10,699,485
Net assets without donor restrictions	5,902,796	5,883,234
Total net assets	5,902,796	5,883,234
	\$ 18,094,550	\$ 17,564,120

See notes to financial statements.

The Hammond Urban Academy, Inc.

**Statements of Activities
Years Ended June 30, 2020 and 2019**

	2020	2019
Changes in net assets without donor restrictions:		
Revenues:		
State education support	\$ 3,891,787	\$ 3,648,227
Grant revenue	753,339	762,638
Student fees	161,660	180,301
Contributions	652,613	697,867
Other	38,010	54,096
Total revenues	5,497,409	5,343,129
Expenses:		
Program services	4,438,838	4,538,511
Management and general	1,039,009	944,484
Total expenses	5,477,847	5,482,995
Change in net assets	19,562	(139,866)
Net assets, beginning of year	5,883,234	6,023,100
Net assets, end of year	\$ 5,902,796	\$ 5,883,234

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 19,562	\$ (139,866)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	720,269	726,151
Change in current assets and liabilities:		
Grants receivable	21,340	24,786
Prepaid expenses	(9,057)	5,754
Accounts payable	23,533	(27,116)
Accrued expenses	193,913	(153,268)
Deferred revenue	13,286	50,473
Net cash provided by operating activities	982,846	486,914
Cash flows from investing activities:		
Acquisition of property and equipment	(120,710)	(126,624)
Net cash used in investing activities	(120,710)	(126,624)
Cash flows from financing activities:		
Principal payments on long-term debt	(432,698)	(592,698)
Principal payments on obligations under capital lease	(105,506)	(145,261)
Proceeds from Paycheck Protection Program forgivable loan	500,000	-
Net cash used in financing activities	(38,204)	(737,959)
Increase (decrease) in cash and restricted cash	823,932	(377,669)
Cash and restricted cash held in escrow:		
Beginning of year	2,020,412	2,398,081
End of year	\$ 2,844,344	\$ 2,020,412
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 280,872	\$ 683,550
Equipment acquired in exchange for capital lease	\$ 302,314	\$ 260,912

See notes to financial statements.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies

Nature of school: The Hammond Urban Academy, Inc. (the School) is a public benefit not-for-profit school incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Calumet College of St. Joseph. The School is dedicated to providing the highest quality level of education to students in grades six to twelve by implementing state of the art technology and research-based instruction in an environment conducive to learning.

Significant accounting policies:

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The School has cash on deposit in a financial institution, which, at times, may exceed the limits of coverage provided by the Federal Deposit Insurance Corporation (FDIC).

The bond loan agreements require deposits in an escrow account as a debt service reserve. The deposits were funded from the proceeds of the bonds and are included in cash restricted for debt service on the statements of financial position.

The following table provides a reconciliation of cash and cash restricted for debt service reported within the statements of financial position to the total of the corresponding amounts shown in the statements of cash flows at June 30:

	2020	2019
Cash	\$ 1,884,306	\$ 1,073,981
Cash held in escrow and restricted for debt service	960,038	946,431
	<u>\$ 2,844,344</u>	<u>\$ 2,020,412</u>

Grants receivable: Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Deferred loan costs: Costs associated with debt issuance are amortized over the life of the related debt obligation using the straight-line method, which approximates the effective interest method. Amortization of deferred loan costs amounted to approximately \$16,000 for both years ended June 30, 2020 and 2019.

Property and equipment: Property and equipment are stated at cost or, if donated to the School, at fair value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies (Continued)

Depreciation is computed using the straight-line method for property and equipment over the following estimated useful lives:

	Years
Buildings and improvements	30 to 40
Furniture and equipment	3 to 5
Textbooks	5

The School has a capitalization policy that states all property and equipment in excess of \$1,000 are to be capitalized and depreciated. Depreciation expense totaled approximately \$704,000 and \$710,000 for the years ended June 30, 2020 and 2019, respectively.

Long-lived assets: The School reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the School would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of long-lived assets. There was no impairment at June 30, 2020 and 2019.

Classification and reporting of net assets: Accounting standards require the School to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of each class of net assets follows:

- Net assets without donor restrictions represent the portion of net assets of the School that is not restricted by donor-imposed stipulations. Net assets without donor restrictions include expendable funds available for the support of the School.
- Net assets with donor restrictions represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. At June 30, 2020 and 2019, the School had no net assets with donor restrictions.

Revenue recognition: Revenues are substantially received from resources provided under the Indiana Charter Schools Act (the Act). Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments beginning in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered. Deferred revenue is recorded for amounts received for student tuition and fees prior to fiscal year-end, which relate to the subsequent fiscal year.

A portion of the School's revenue is from cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Contributions: Contributions are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor restricted contributions whose restrictions are met in the same reporting period are reported in the statement of activities as net assets without donor restrictions.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies (Continued)

Income taxes: The School is incorporated as a not-for-profit under the laws of the State of Indiana and is exempt from federal and state income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except for taxes pertaining to unrelated business income, if any, and is not considered a private foundation. Contributions by the public are deductible for income tax purposes.

The School follows the accounting guidance for uncertainty in income taxes. The standard clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management believes the School has no material uncertainties in income taxes. With few exceptions, the School is no longer subject to examination for years before 2017.

Recently adopted accounting pronouncements: In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The School adopted the new guidance for its June 30, 2020 financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The School adopted the new guidance for its June 30, 2020 financial statements and determined the adoption did not have a material impact.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard is effective for the School's June 30, 2021, financial statements. The School has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the School's June 30, 2023, financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The School is currently evaluating the effect of the pending adoption of the new standard on the financial statements.

Subsequent events: The School has evaluated subsequent events for potential recognition and/or disclosure through November 8, 2021, the date the financial statements were available to be issued.

In February 2021, the School applied for and received a second forgivable loan under the United States Small Business Administration Paycheck Protection Program in the amount of \$500,000.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one-year of the date of statement of financial position, comprise the following at June 30:

	2020	2019
Cash and restricted cash	\$ 2,844,344	\$ 2,020,412
Grants receivable	8,024	29,364
	<u>2,852,368</u>	<u>2,049,776</u>
Less amounts not available to be used within one-year:		
Cash restricted for debt service	960,038	946,431
Financial assets available to meet general expenditures within one-year	<u>\$ 1,892,330</u>	<u>\$ 1,103,345</u>

General expenditures include program expenses and supporting services expected to be paid in the subsequent year. The School regularly monitors liquidity required to meet its annual operating needs and other contractual commitments.

Note 3. Paycheck Protection Program Loan

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection with the CARES Act, the School received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for \$500,000 on April 11, 2020. The School determined they qualified for the loan because the School has fewer than 500 employees. The loan is unsecured, bears interest at 1.00%, and matures on April 11, 2022. Under the provisions of the CARES Act and related loans, this loan will be forgiven if certain conditions are met related to the use of the proceeds and maintenance of employment with the School employees. The School has elected to account for the loan as a financial liability in accordance with Accounting Standards Codification (ASC) Topic 740, Debt. Subsequent to year-end, the School applied for and received full forgiveness by the SBA.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 4. Long-Term Debt

Long-term debt at June 30, consisted of the following:

	2020	2019
\$9,175,000 Note, City of Hammond, issued through Economic Development Revenue Bonds, Series 2016B, payable in semi-annual installments ranging from \$70,000 to \$475,000, plus interest at 5.00%, secured by building, until maturity in August 2035	\$ 8,530,000	\$ 8,620,000
Common School Loan, State of Indiana, payable in semi-annual installments of \$171,349, plus interest at 1.00%, until maturity in July 2026	2,227,536	2,570,234
Small Business Administration (SBA) Paycheck Protection Program Forgivable Loan (see Note 3)	500,000	-
	11,257,536	11,190,234
Less current maturities	722,144	432,698
	10,535,392	10,757,536
Less deferred loan costs, net of amortization	239,085	255,110
	<u>\$ 10,296,307</u>	<u>\$ 10,502,426</u>

Aggregate maturities of long-term debt outstanding at June 30, 2020, are as follows:

2021	\$ 722,144
2022	843,252
2023	547,698
2024	557,698
2025	567,698
Thereafter	8,019,046
	<u>\$ 11,257,536</u>

The interest expense was approximately \$470,000 and \$515,000 for the years ended June 30, 2020 and 2019, respectively.

The City of Hammond has also committed to supplement any anticipated shortfall the School may have in meeting the debt service obligation. For each year ended June 30, 2020 and 2019, the City of Hammond provided funding in the amount of \$650,000, which is presented in contributions in the statements of activities, to meet the debt service obligation. The School has also received funding from the City of Hammond in the amount of \$650,000 for fiscal year 2021.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 5. Capital Leases

The School is leasing computer, television and office equipment under capital lease agreements which expire at various dates from July 2023 through May 2025. The lease agreements require minimum monthly principal payments of approximately \$5,949, \$2,998 and \$1,404, respectively. A summary of the equipment under capital lease agreements at June 30, is as follows:

	2020	2019
Cost	\$ 805,758	\$ 503,444
Less accumulated depreciation	278,558	159,842
Net leased assets included in property and equipment	<u>\$ 527,200</u>	<u>\$ 343,602</u>

Future minimum lease payments under the lease are as follows:

Year ending June 30,	
2021	\$ 131,956
2022	136,793
2023	136,793
2024	125,479
2025	3,416
Total minimum lease payments	<u>534,437</u>
Less amount representing interest	39,830
Present value of minimum lease payments	<u>\$ 494,607</u>

The interest expense was approximately \$19,000 and \$12,000 for the years ended June 30, 2020 and 2019, respectively.

Note 6. Commitments

The School operates under a charter granted by Calumet College of St. Joseph. As the sponsoring organization, Calumet College of St. Joseph exercises certain oversight responsibilities. Under this charter, the School agrees to pay to Calumet College of St. Joseph an annual authorizer's fee equal to 3% of state tuition payments received. The charter is effective until June 2023. Payments under this agreement were approximately \$110,100 and \$88,800 for the years ended June 30, 2020 and 2019, respectively.

Note 7. Risk and Uncertainties

The School provides education services to families residing in Lake County and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in an additional liability to be imposed on the School.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 7. Risk and Uncertainties (Continued)

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2021 and 2020, substantially all of the grants receivable balance was due from the State of Indiana. Bank deposits are maintained at a bank and are insured up to the FDIC insurance limit.

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak severely impacted the level of economic activity around the world and in the United States, and continues to create uncertainty for the near-term revenues and expenses of the School due to its detrimental impact on the economy, jobs, and family incomes.

Note 8. Retirement Plan

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund (TRF) and the Indiana Public Employees' Retirement Fund (PERF), both of which are multiple-employer cost-sharing defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System (INPRS) Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2020 and 2019, the School contributed 10.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 10.75% of compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was approximately \$209,000 and \$235,200 for the years ended June 30, 2020 and 2019, respectively.

Note 9. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, network support and equipment, insurance, interest, occupancy, and repairs and maintenance, which are allocated on a square footage basis. Salaries and wages and employee benefits are allocated on the basis of estimates of time and effort. Management evaluates these allocations on an annual basis.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 9. Functional Allocation of Expenses (Continued)

Expenses by functional and natural classification consist of the following:

	2020		
	Program Services	Management and General	Total
Salaries and wages	\$ 2,056,432	\$ 437,000	\$ 2,493,432
Employee benefits	690,890	132,271	823,161
Authorizer's fees	-	110,138	110,138
Supplies and materials	108,212	3,586	111,798
Depreciation and amortization	612,229	108,040	720,269
Network support and equipment	111,469	19,671	131,140
Food service	110,505	-	110,505
Insurance	7,029	1,241	8,270
Interest	399,082	70,426	469,508
Occupancy	123,992	21,881	145,873
Professional fees	71,852	109,189	181,041
Repairs and maintenance	52,595	-	52,595
Staff development	89,404	-	89,404
Other	5,147	25,566	30,713
Total expenses	<u>\$ 4,438,838</u>	<u>\$ 1,039,009</u>	<u>\$ 5,477,847</u>

	2019		
	Program Services	Management and General	Total
Salaries and wages	\$ 2,095,335	\$ 349,503	\$ 2,444,838
Employee benefits	668,196	118,664	786,860
Authorizer's fees	-	88,790	88,790
Supplies and materials	84,640	4,976	89,616
Depreciation and amortization	617,228	108,923	726,151
Network support and equipment	95,701	16,888	112,589
Food service	133,202	-	133,202
Insurance	107,551	18,980	126,531
Interest	437,908	77,278	515,186
Occupancy	129,990	22,939	152,929
Professional fees	56,113	106,751	162,864
Repairs and maintenance	18,072	-	18,072
Staff development	85,976	320	86,296
Other	8,599	30,472	39,071
Total expenses	<u>\$ 4,538,511</u>	<u>\$ 944,484</u>	<u>\$ 5,482,995</u>

Supplementary Information

The Hammond Urban Academy, Inc.

Supplemental Report Information

The Independent Auditor's Report presented on page 1 was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of The Hammond Urban Academy, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.